

## Allowable Funds

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The following funds are authorized for use by local educational agencies (LEAs). Certain funds are required when LEAs conduct activities that meet the criteria for using those funds. Other funds are optional and may be used at the LEA's discretion. Only the minimum number of funds consistent with legal and operating requirements should be established; using unnecessary funds results in inflexibility, undue complexity, and inefficient financial administration.

### **I. Governmental Funds**

#### **A. General Fund**

The General Fund is the chief operating fund for all LEAs, including school districts, county offices of education, and joint powers agreements/agencies. A county office of education's General Fund is known as the County School Service Fund.

The General Fund is used to account for the ordinary operations of the LEA. All transactions except those required or permitted by law to be in another fund are accounted for in this fund.

Within the General Fund, restricted projects or activities must be identified and separated from unrestricted activities.

#### **B. Special Revenue Funds**

Special revenue funds are established to account for the proceeds from specific revenue sources (other than trusts or for major capital projects) that are restricted by law to the financing of particular activities.

##### **1. Adult Education Fund**

The Adult Education Fund is used to account separately for federal, state, and local revenues for Adult Education programs.

The principal revenue accounts in this fund are:

Adult Education Block Entitlement  
Apprentice Transfer from the General Fund  
Workforce Investment Act (WIA)  
Other Federal Revenue (e.g., Adult Basic Education)  
All Other State Revenue  
Interest  
Adult Education Fees  
All Other Local Revenue

Expenditures in this fund may be made only for adult education purposes; moneys received for programs other than adult education shall not be expended for adult education (*Education Code* sections 52616[b] and 52501).

Expenditures in this fund may be made only for direct instructional costs relating directly to the Adult Education Program, including but not limited to the salaries and benefits of adult education teachers and aides; textbooks; instructional supplies; travel and conference expenses for employees who work in the Adult Education Program; and repair, maintenance, acquisition, and replacement of instructional equipment used in the Adult Education Program. Money in this fund may also be expended for direct support costs of the Adult Education Program and for indirect costs of the Adult Education Program as specified in *Education Code* Section 52616.

## 2. Cafeteria Special Revenue Fund or Cafeteria Account

The Cafeteria Special Revenue Fund (*Education Code* Section 38090) or Cafeteria Account (*Education Code* Section 38093) is used to account separately for federal, state, and local revenue to operate the food service program.

The principal revenue accounts in this fund are:

Child Nutrition Programs (Federal)  
Child Nutrition Programs (State)  
Food Service Sales  
Interest  
All Other Local Revenue

*Education Code* Section 38093 allows the governing board of an LEA to set up, in one or more banks, an account for each cafeteria established in the LEA or for all cafeterias established in the LEA. That section of the

*Education Code* uses the term *account* to mean fund. Therefore, when the Cafeteria Fund is established in a separate bank account, apart from the county treasury, it is referred to as the Cafeteria Account. See also *Education Code* sections 38094 and 38095.

The governing board of the LEA may authorize expenditures from the Cafeteria Fund or Cafeteria Account only for those charges that are defined as food service program costs in the *California School Accounting Manual* or are reported to the California Department of Education on Form J-380, EDP 455, as revised April 1990.

The food service program, as in any other program, shall not be charged more than once for expenditures for the same service. If a food service program is being charged for a service as a direct cost, the school district shall not also allocate that cost as a direct support cost or as an indirect cost. For the Cafeteria Fund, an "indirect cost" shall be limited to the lesser of the school district's prior year indirect cost rate as approved by the California Department of Education or the statewide average approved indirect cost rate for the second prior fiscal year (*Education Code* Section 38101).

The governing board of an LEA may establish and maintain within the Cafeteria Fund a cafeteria equipment reserve for the purchase, lease, maintenance, or replacement of cafeteria equipment (*Education Code* Section 38102).

### 3. Child Development Fund

The Child Development Fund is used to account separately for federal, state, and local revenues to operate Child Development programs (*Education Code* Section 8328).

The principal revenue accounts in this fund are:

- Economic Opportunity Act
- Child Nutrition Programs (Federal)
- State Preschool
- Child Nutrition Programs (State)
- Child Development Apportionments
- All Other State Revenue
- Food Service Sales
- Interest
- Child Development Parent Fees
- All Other Local Revenue
- Interfund Transfers In

The Child Development Fund may be used only for necessary expenditures for the operation of Child Development programs (*Education Code* Section 8328).

4. Deferred Maintenance Fund

The Deferred Maintenance Fund is used to account separately for state apportionments and LEAs' contributions for deferred maintenance purposes (*Education Code* sections 17582–17587).

The principal revenue (and other source) accounts in this fund are:

Deferred Maintenance Allowance  
Interest  
Interfund Transfers In

Expenditures in this fund are for major repairs or replacements under the plan approved by the State Allocation Board (*Education Code* Section 17582).

5. Pupil Transportation Equipment Fund (Optional)

The Pupil Transportation Equipment Fund is used to account separately for state and local revenues for the acquisition, rehabilitation, or replacement of equipment used to transport students (*Education Code* Section 41852[b]).

Typical expenditures in this fund include items charged to Object 4400 (Noncapitalized Equipment), Object 6400 (Equipment), and Object 6500 (Equipment Replacement).

6. Special Reserve Fund for Other Than Capital Outlay Projects (Optional)

The Special Reserve Fund for Other Than Capital Outlay Projects is used primarily to provide for the accumulation of General Fund moneys for general operating purposes other than for capital outlay (*Education Code* sections 42840 and 42842). Amounts from this special reserve fund must first be transferred into the General Fund or other appropriate fund of the LEA before expenditures can be made.

## 7. The Forest Reserve Fund

The Forest Reserve Fund exists primarily to account separately for federal forest reserve funds received by county offices of education for distribution to school districts and community college districts (*Education Code* Section 2300; *Government Code* Section 29484).

The primary revenue sources are:

### Forest Reserve Funds

#### Pass-Through Revenues from Federal Sources

A county office reports its portion of the forest reserve revenue in account 8260, Forest Reserve Funds, and the transfer to the County School Service Fund in account 7619, Other Authorized Interfund Transfers Out. Revenues designated for districts are reported in account 8287, Pass-Through Revenues from Federal Sources. The disbursements of those funds should be reported as Transfers of Pass-Through Revenues (accounts 7211, 7212, and 7213).

School districts should report the forest reserve moneys as federal revenues in account 8260, Forest Reserve Funds.

## 8. School Bus Emissions Reduction Fund

The School Bus Emissions Reduction Fund is used to accumulate money for the purchase or lease of new low- or zero-emission school buses or for the retrofitting of existing school buses (*Education Code* sections 17920–17926). The money could come from private parties as payment for the right to use Emission Reduction Credits or from air pollution control district and air quality management district grants.

More than 50 percent of the money deposited in the School Bus Emissions Reduction Fund must come from LEA revenues. The LEA's contribution may be from local sources or unrestricted General Fund money, but it cannot be money from the existing Small School District Bus Replacement Program. This restriction also applies to any new money that the state appropriates for the purchase or lease of new low- or zero-emission school buses or for the retrofitting of existing school buses.

## 9. Charter Schools Special Revenue Fund

The Charter Schools Special Revenue Fund exists as an option to separately report the activities of those charter schools not included in the General Fund or County School Service Fund.

The principal revenues in this fund are:

Charter Schools General Purpose Entitlement—State Aid  
Charter Schools Categorical Block Grant  
Lottery  
Interest  
All Other Local Revenue  
Charter School Funding in Lieu of Property Taxes

#### 10. Foundation Special Revenue Fund

The Foundation Special Revenue Fund is used to account for resources received from gifts or bequests pursuant to *Education Code* Section 4103.1 under which both earnings and principal may be used for purposes that support the LEA's own programs.

This fund should be used when there is a formal trust agreement with the donor. Other types of donations should be accounted for in the General Fund. Amounts in the Foundation Special Revenue Fund shall be expended only for the specific purposes of the gift or bequest (*Education Code* Section 4103.2).

#### 11. Special Reserve Fund for Postemployment Benefits

The Special Reserve Fund for Postemployment Benefits (new for 2003-04) may be used to account for amounts the LEA has earmarked for the future cost of retiree benefits but has not contributed irrevocably to a separate trust for the retiree benefit plan. Amounts accumulated in this fund must be transferred back to the General Fund for expenditure.

Use of this fund is optional. The LEA may account for amounts earmarked for retiree benefits in either the General Fund or the Special Reserve Fund for Other Than Capital Outlay Projects instead.

If the LEA pays for its retiree benefit costs entirely on a pay-as-you-go basis, there is no need to use this fund. If the LEA makes irrevocable contributions to a separate trust for the retiree benefit plan, the LEA may use the Retiree Benefit Fund.

## C. Capital Project Funds

Capital project funds are established to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

### 1. Building Fund

The Building Fund exists primarily to account separately for proceeds from the sale of bonds (*Education Code* Section 15146). Other authorized revenues to the Building Fund are (1) proceeds from the sale or lease with option to purchase of real property (*Education Code* Section 17462); and (2) revenue from rentals and leases of real property specifically authorized by the governing board for deposit into the fund (*Education Code* Section 41003).

The principal revenue (and other source) accounts in this fund are:

Rentals and Leases

Interest

Proceeds from the Sale of Bonds

Proceeds from the Sale/Lease-Purchase of Land and Buildings

Federal Emergency Management Act (FEMA)

Most commonly, expenditures in the Building Fund are made against the Object 6000 series of accounts. Another authorized expenditure in the Building Fund is repayment of State School Building Aid out of proceeds from the sale of bonds (*Education Code* Section 16058).

### 2. Capital Facilities Fund

The Capital Facilities Fund is used primarily to account separately for moneys received from fees levied on developers or other agencies as a condition for approving a development. The authority for the levies may be county/city ordinances (*Government Code* sections 65970–65981) or private agreements between the LEA and the developer. Interest earned in the Capital Facilities Fund is restricted to that fund (*Government Code* Section 66006).

The principal revenue accounts in this fund are:

Interest

Mitigation/Developer Fees

Expenditures in the Capital Facilities Fund are restricted to the purposes specified in *Government Code* sections 65970–65981 or as specified in agreements with the developer (*Government Code* Section 66006).

### 3. State School Building Lease-Purchase Fund

The State School Building Lease-Purchase Fund is used primarily to account separately for state apportionments as provided by *Education Code* sections 17000–17080. The LEA may be required to transfer to this fund any available moneys from other funds as the LEA's contribution to a particular project.

The principal revenue (and other source) accounts for this fund are:

School Facilities Apportionments  
Interest  
Interfund Transfers In

Typical expenditures in this fund include items charged to Object 6200, Buildings and Improvement of Buildings, and Object 6300, Books and Media for New School Libraries.

### 4. County School Facilities Fund

The County School Facilities Fund is used primarily to account separately for state apportionments as provided in *Education Code* sections 17009.5 and 17070.10–17076.10.

The principal revenue (and other source) accounts in this fund are:

School Facilities Apportionments  
Interest

Typical expenditures in this fund include items charged to Object 6200, Buildings and Improvement of Buildings, and Object 6300, Books and Media for New School Libraries.

### 5. Special Reserve Fund for Capital Outlay Projects (Optional)

The Special Reserve Fund for Capital Outlay Projects exists primarily to provide for the accumulation of General Fund moneys for capital outlay purposes (*Education Code* Section 42840). This fund may also be used to account for any other revenues specifically for capital projects that are not restricted to Funds 21, 25, 30, 35, or 49. Other authorized revenues that may be transferred to the Special Reserve Fund for Capital Outlay Projects



are (1) proceeds from the sale or lease with option to purchase of real property (*Education Code* Section 17462); (2) rentals and leases of real property specifically authorized for deposit to the fund by the governing board (*Education Code* Section 41003); and (3) excess amounts sufficient to pay all unpaid bond obligations (*Education Code* Section 15235).

The principal revenue and other source accounts in this fund are:

Rentals and Leases

Interest

Other Authorized Interfund Transfers In

Proceeds from Sale/Lease-Purchase of Land and Buildings

Transfers authorized by the governing board from the General Fund *must be expended for capital outlay purposes*. Proceeds from the sale or lease with option to purchase may be spent for capital outlay purposes, costs of maintenance of LEAs' property, and future maintenance and renovation of school sites (*Education Code* Section 17462). Expenditures for capital outlay are made against the Object 6000 series of accounts.

#### 6. Capital Project Fund for Blended Component Units

The Capital Project Fund for Blended Component Units (new for 2002-03) is used to account for capital projects financed by Mello-Roos Community Facilities Districts and similar entities that are considered blended component units of the LEA under generally accepted accounting principles (GAAP). The Mello-Roos Community Facilities Act of 1982 (*Government Code* Section 53311 et seq.) allows any county, city, special district, school district, or joint powers authority to establish, upon approval of two-thirds of the voters in the district, a "Community Facilities District" (CFD) for the purpose of selling tax-exempt bonds to finance public improvements and services.

### D. Debt Service Funds

Debt service funds are established to account for the accumulation of resources for and the payment of the principal and interest on general long-term debt.

#### 1. Bond Interest and Redemption Fund

The Bond Interest and Redemption Fund is used for the repayment of bonds issued for an LEA (*Education Code* sections 15125–15262, Bond Interest and Sinking Fund).

The bonds are issued by the board of supervisors of the county. The proceeds from the sale of the bonds are deposited in the county treasury to the Building Fund of the LEA. Any premiums or accrued interest received from the sale of the bonds must be deposited in the Bond Interest and Redemption Fund of the LEA.

The county auditor maintains control over the LEA's Bond Interest and Redemption Fund. The principal and interest on the bonds must be paid by the county treasurer from taxes levied by the county auditor-controller.

The principal revenue accounts for this fund are:

State Subventions for Homeowners' Exemptions  
Other Subventions/In-Lieu Taxes  
Secured Roll Taxes  
Unsecured Roll Taxes  
Prior Years' Taxes  
Supplemental Taxes  
Interest

Expenditures in this fund are limited to bond interest, redemption, and related costs. Excess moneys shall be transferred to the General Fund (*Education Code* Section 15234) or to a special reserve fund (*Education Code* Section 15235).

## 2. Debt Service Fund for Blended Component Units

The Debt Service Fund for Blended Component Units (new for 2002-03) is used to account for the accumulation of resources for the payment of the principal and interest on bonds issued by Mello-Roos Community Facilities Districts and similar entities that are considered blended component units of the LEA under generally accepted accounting principles (GAAP). The Mello-Roos Community Facilities Act of 1982 (*Government Code* Section 53311 et seq.) allows any county, city, special district, school district, or joint powers authority to establish, upon approval of two-thirds of the voters in the district, a "Community Facilities District" (CFD) for the purpose of selling tax-exempt bonds to finance public improvements and services.

## 3. Tax Override Fund

The Tax Override Fund is used for the repayment of voted indebtedness (other than Bond Interest and Redemption Fund repayments) to be financed from ad valorem tax levies. An example is a public school building loan repayment.

Interest earned in the Tax Override Fund is credited to the General Fund of the LEA.

The principal revenue accounts in this fund are:

State Subventions for Homeowners' Exemptions  
Other Subventions/In-Lieu Taxes  
Secured Roll Taxes  
Unsecured Roll Taxes  
Prior Years' Taxes  
Supplemental Taxes

The principal expenditure accounts in this fund are:

<i>Purpose for which levy was authorized:</i>	<i>Expenditure account</i>
State school building loan repayments ( <i>Education Code</i> Section 16090) .....	7432
Payment to original district for acquisition of property ( <i>Education Code</i> Section 35576) .....	7436
Compensatory education housing repayments ( <i>Education Code</i> Section 16214) .....	7439
Lease-purchase payments ( <i>Education Code</i> Section 17409) .....	7439
Construction of exceptional children's facilities repayments ( <i>Education Code</i> Section 16196) .....	7439
Other voter-approved debt service .....	7439

and Object 7438, Debt Service - Interest.

#### 4. Debt Service Fund

The Debt Service Fund is used for the accumulation of resources for the retirement of principal and interest on general long-term debt.

The principal revenue and other source account in this fund is:

Other Authorized Interfund Transfers In

Most commonly, expenditures are made against the Object 7430–7449 series of accounts.

## **E. Permanent Funds**

This governmental fund type was introduced as part of the governmental financial reporting model established by GASB Statement No. 34.

### **Foundation Permanent Fund**

The Foundation Permanent Fund is used to account for resources received from gifts or bequests pursuant to *Education Code* Section 41031 that are restricted to the extent that earnings, but not principal, may be used for purposes that support the LEA's own programs.

This fund should be used when there is a formal trust agreement with the donor. Other types of donations should be accounted for in the General Fund. Amounts in the Foundation Permanent Fund shall be expended only for the specific purposes of the gift or bequest (*Education Code* Section 41032).

## **II. Proprietary Funds**

### **A. Enterprise Funds**

An enterprise fund may be used to report any activity for which a fee is charged to external users for goods or services. An enterprise fund must be used to report any activity whose principal revenue sources meet any of the following criteria:

1. The LEA has issued debt backed *solely* by fees and charges from that activity.
2. There is a legal requirement that the cost of providing services, including capital costs such as depreciation or debt service, must be recovered through fees or charges.
3. The LEA's policy is to establish activity fees or charges designed to recover the cost of providing services, including capital costs such as depreciation or debt service.

In practice, enterprise funds are frequently used to account for activities whose costs are only partially funded by fees and charges. For example, the Cafeteria program may be accounted for as an enterprise fund rather than as a special revenue fund, even though its primary source of financing comes from Child Nutrition program revenues instead of through the price paid for lunch by the

students. The California Department of Education recommends that an LEA use an enterprise fund to account for its Cafeteria operations only if the LEA's governing board intends that the Cafeteria program be operated in a manner similar to that employed by private business enterprises and that all costs of providing services, including depreciation of capital assets, be fully recovered.

An enterprise fund is accounted for on a full-accrual basis. In an enterprise fund, capital assets and long-term debt (including all long-term debt obligations, such as vacation pay and capital leases) are recorded in the fund. All revenues and *expenses* (rather than expenditures) are recorded regardless of when they will be received or paid. Depreciation of capital assets is included.

An enterprise fund may be used to account for any activity that an LEA accounted for in an enterprise fund prior to issuance of GASB Statement No. 34 even if the activity does not otherwise meet the criteria for using an enterprise fund.

## **B. Internal Service Funds (Optional)**

Internal service funds are created principally to render services on a cost-reimbursement basis to other funds or departments of the LEA. Internal service funds are generally intended to be self-supporting.

### **1. Self-Insurance Fund (Optional)**

Self-insurance funds are used to separate moneys received for self-insurance activities from other operating funds of an LEA.

Separate funds may be established for each type of self-insurance activity, such as workers' compensation, health and welfare, and deductible property loss (*Education Code* Section 17566).

The principal revenue accounts in this fund are the following:

Interest  
In-District Premiums/Contributions  
Interagency Revenues  
All Other Local Revenue

Expenses from the Self-Insurance Fund shall be made for the payment of claims, administrative costs, services, deductible insurance amounts, cost of excess insurance, and other related costs.

Amounts contributed to a Self-Insurance Fund are lawfully restricted for insurance purposes (*Education Code* Section 17566).

## 2. Warehouse Revolving Fund (Optional)

The Warehouse Revolving Fund is used primarily to maintain budget control and stock accounting of merchandise for an LEA's use (*Education Code* Section 42830). The Warehouse Revolving Fund is reimbursed from various funds of the LEA for amounts used in those funds.

Expenses in the Warehouse Revolving Fund may include the purchase of stores to be placed in stock, including the costs of receiving, storing, and delivering them (*Education Code* Section 42832).

### **III. Fiduciary Funds**

Fiduciary funds are used to account for assets that are held in a trustee or an agent capacity for others and cannot be used to support the LEA's own programs.

The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

#### **A. Pension (and other employee benefit) Trust Fund**

This fund is used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other postemployment benefit plans, or other employee benefit plans. For a state-administered pension system, such as STRS or PERS, the state, not the LEA, maintains the pension (and other employee benefit) trust fund.

##### 1. Retiree Benefit Fund (Optional)

The Retiree Benefit Fund exists to account separately for amounts held in trust from salary reduction agreements or irrevocable contributions for employees' retirement benefit payments or both. This fund should only be used to account for an LEA's irrevocable contributions to a retiree benefit plan for which a formal trust exists. Amounts earmarked for retiree benefits but not contributed irrevocably to a trust should be accounted for in the General Fund or a Special Reserve fund.

Moneys may be contributed to the Retiree Benefit Fund from other funds by periodic expense charges in amounts based on existing and future obligations requirements. Payments may be made from the fund for

insurance, annuities, administrative costs, or any other authorized purpose (*Education Code* Section 42850).

The principal revenue accounts in this fund are:

Interest  
In-District Premiums/Contributions  
All Other Local Revenue

Typical expenditures in the Retiree Benefit Fund are from Object 5800.

## **B. Private-Purpose Trust Funds**

### **1. Foundation Private-Purpose Trust Fund**

The Foundation Private-Purpose Trust Fund is used to account separately for moneys received from gifts or bequests per *Education Code* Section 41031 under which principal and income benefit individuals, private organizations, or other governments and under which neither principal nor income may be used for purposes that support the LEA's own programs.

This fund should be used when there is a formal trust agreement with the donor. Other types of donations should be accounted for in the General Fund. Amounts in the Foundation Private-Purpose Trust Fund shall be expended only for the specific purposes of the gift or bequest (*Education Code* Section 41032).

## **C. Agency Funds**

### **1. Warrant/Pass-Through Fund**

The Warrant/Pass-Through Fund exists primarily to account separately for amounts collected from employees for federal taxes, state taxes, credit unions, and other contributions. It is also to account for those receipts for transfer to agencies for which the LEA is acting simply as a cash conduit.

It is recommended that at a local level, two agency funds be used: one for clearing payroll withholdings and another for the pass-through of resources.

### **2. Student Body Fund or Account (Optional)**

The Student Body Fund or Account is used primarily to enable a student body to raise and expend money to promote the general welfare, morale,

and educational experiences of the student body (*Education Code* sections 48930–48938). Sources of receipts include but are not limited to fund-raising ventures, student-store merchandise, athletic and student body performances, concessions, publications, gifts, grants, and interest. Unorganized student body funds (*Education Code* Section 48938) are governed by the same principles of student body accounting that govern organized student body funds.

Disbursements from the Student Body Fund or Account may be made for merchandise, student body activities, food (*California Code of Regulations, Title 5, Education*, sections 15500 and 15501), hospitality, and student awards.